

G. C. MURPHY COMPANY



ANNUAL REPORT

1940

MRB
CORP. FILE

G. C. MURPHY COMPANY
531 Fifth Avenue
McKEESPORT, PA.

OFFICERS

EDGAR M. MACK.....Chairman of the Board
W. C. SHAW.....President
P. L. SAMPLE.....Vice-President
J. A. KRUT.....Vice-President, Secretary and Treasurer
J. P. FIFE.....Assistant Secretary
L. FALKENSTEIN.....Assistant Secretary
W. S. THOMSON.....Assistant Secretary
C. L. KNODEL.....Assistant Treasurer
P. D. ALBERT.....Assistant Treasurer
C. F. SCHATZ.....Assistant Treasurer

DIRECTORS

EDGAR M. MACK	J. A. KRUT	PAUL R. REED
W. C. SHAW	J. P. FIFE	JAMES S. MACK
P. L. SAMPLE	B. E. MCSHEEHY	H. O. LATHAM

J. P. FIFE.....Legal Counsel
BANKERS TRUST COMPANY.....Transfer Agent
CHASE NATIONAL BANK OF THE CITY OF NEW YORK....Registrar
LYBRAND, ROSS BROS. & MONTGOMERY.....Auditors
McKEESPORT, PA.....General Offices

MACK REALTY COMPANY
Wholly-owned Subsidiary
531 Fifth Avenue
McKEESPORT, PA.

OFFICERS

EDGAR M. MACK.....President
W. C. SHAW.....Vice-President
PAUL W. MACK.....Vice-President
J. P. FIFE.....Vice-President, Assistant Secretary
J. A. KRUT.....Secretary and Treasurer
J. M. WILSON.....Assistant Secretary, Assistant Treasurer
L. FALKENSTEIN.....Assistant Secretary
C. L. KNODEL.....Assistant Treasurer

DIRECTORS

EDGAR M. MACK	P. L. SAMPLE	H. E. CROSBY
W. C. SHAW	PAUL W. MACK	E. F. MCCLUNE

TO OUR STOCKHOLDERS:

The annual report of your Company, including Consolidated Balance Sheet at December 31, 1940 and Statement of Consolidated Income and Earned Surplus for the year ended December 31, 1940, is submitted herewith.

Earnings

Net income for the year 1940, after provision for depreciation of property, amortization of leasehold improvements, federal and state income taxes, and federal excess profits tax, was \$3,363,535.21. After payment of dividends of \$200,000 on the Five Per Cent Cumulative Preferred Stock, earnings were equal to \$6.58 a share on the 480,500 shares of Common Stock outstanding. This compares with net income of \$3,307,822.36 for the year 1939, which was equal, after payment of dividends on the preferred stock, to \$6.47 a share on the outstanding Common Stock.

The income for 1940, before deducting federal income and excess profits taxes, was \$4,834,335, an increase of \$829,263 over the comparable amount for 1939. Federal income and excess profits taxes for the year 1940 amounted to \$1,470,800 while the federal income tax for the year 1939 was \$697,250. Federal income and excess profit taxes for 1940 are \$773,550 in excess of federal income tax for 1939, so that of the increase of \$829,263 in earnings before taxes, only \$55,713 was retained by the Company.

Sales

Sales for the year 1940 were \$53,365,580.97, an increase of 12.86 per cent over sales for the year 1939 of \$47,284,970.16.

Taxes

Total taxes for the year 1940 were \$2,359,868, equal to \$4.91 for each share of Common Stock outstanding, and an average of \$11,568 for each store in operation at December 31, 1940.

This compares with total taxes of \$1,466,761 for the year 1939, equal to \$3.05 for each share of Common Stock outstanding, and an average of \$7,261 for each store in operation at December 31, 1939.

In addition we paid taxes of \$230,519 on rented properties, and collected for and paid to various states sales taxes totaling \$258,084.

Social Security payments, comprising Unemployment Insurance and Old Age and Survivors' Insurance, were \$315,902. This amount is included in the total taxes of \$2,359,868.

Dividends

Dividends on the 480,500 shares of Common Stock outstanding were paid as follows:

March 1, 1940.....	\$1 a share
June 1, 1940.....	\$1 a share
September 3, 1940.....	\$1 a share
December 2, 1940.....	\$1 a share

a total of \$4 a share, as compared with a total of \$3.25 a share paid in 1939.

The regular quarterly dividends of \$1.25 a share, payable on the second days of January, April, July, and October, were maintained on the Five Per Cent Cumulative Preferred Stock in the year 1940.

Working Capital

Current assets at December 31, 1940 were \$10,426,508; while current liabilities were \$4,757,891. Working capital (net current assets) amounted to \$5,668,617 as compared with \$5,611,660 at December 31, 1939.

Properties

There were 204 stores in operation at December 31, 1940 as compared with 202 stores at December 31, 1939.

This change in the number of stores reflects the addition of three new stores and the discontinuance of one store.

New stores are located at Mt. Lebanon, Pennsylvania, where we opened for business on April 26, 1940; York, Pennsylvania, and Brentwood, Pittsburgh, Pennsylvania, where we opened for business on December 5 and December 19, 1940 respectively.

The store at Kimball, West Virginia, was closed on May 27, 1940 and we disposed of the property.

There were seventeen major remodeling jobs in 1940.

Included in this number is a store at Scranton, Pennsylvania, and one at Baltimore, Maryland, both of which were moved to new locations.

Also included is the store in downtown Pittsburgh, Pennsylvania, where we substantially increased the Fifth Avenue frontage, and added to sales space on the first floor and basement.

Other locations included in major remodeling work in 1940 were Grove City, New Bethlehem, Carnegie, and Pitcairn, Pennsylvania; Wellsburg, Princeton, Hollidays Cove, and

STORE LOCATIONS—Continued

Mullens
Northfork
Philippi
Piedmont
Point Pleasant
Princeton
Richwood
Shinnston
Sistersville
Spencer
Weirton
Welch
Wellsburg
Weston
Williamson

Seymour
Shelbyville
Washington

NEW YORK—9 stores

Buffalo
Dansville
Fredonia
Jamestown
Lancaster
LeRoy
Medina
North Tonawanda
Syracuse

OHIO—17 stores

Alliance
Barnesville
Bellaire
Bellefontaine
Circleville
Gallipolis
Greenville
Middletown
Piqua
Salem
Sidney
Toronto
Troy
Van Wert
Washington Court
House
Wilmington
Youngstown

CONNECTICUT—5 stores

Ansonia
Naugatuck
New Canaan
Stamford
Torrington

ILLINOIS—4 stores

Hoopeston
LaGrange
Pontiac
Streator

NEW JERSEY—4 stores

Ocean City
Washington
Westfield
Wildwood

MARYLAND—16 stores

Annapolis
Baltimore—10 stores
Cumberland
Frostburg
Rockville
Silver Spring
Westminster

KENTUCKY—4 stores

Ashland
Maysville
Paintsville
Pikeville

MICHIGAN—1 store

St. Joseph

INDIANA—12 stores

Brazil
Clinton
Columbus
Fort Wayne
Greencastle
Indianapolis—2 stores
Linton
Rockville

VIRGINIA—1 store

Alexandria

DISTRICT OF COLUMBIA—3 stores

Washington—3 stores

STORE LOCATIONS

PENNSYLVANIA—100 stores

Aliquippa
Ambridge
Bangor
Barnesboro
Beaver
Beaver Falls
Bedford
Bellefonte
Bellevue
Bethlehem
Blairsville
Brentwood
Brookville
Brownsville
Burgettstown
California
Carnegie
Charleroi
Clairton
Clarion
Clearfield
Connellsville
Corry
Derry
Dormont
Duquesne
East Pittsburgh
Elizabeth
Ellwood City
Erie—2 stores
Etna
Everett
Farrell
Ford City
Franklin
Gettysburg
Greensburg
Greenville
Grove City
Hanover
Harrisburg
Huntingdon
Indiana
Irwin
Jeannette
Johnsonburg
Kittanning
Latrobe
Lehighton
Lewistown—2 stores
Ligonier
McDonald

McKeesport
McKees Rocks
Meadville
Mercer
Meyersdale
Midland
Monessen
Mt. Lebanon
Mt. Oliver
Mount Union
Nazareth
New Bethlehem
New Castle
New Kensington
North East
Pitcairn
Pittsburgh—7 stores
Punxsutawney
Red Lion
Rochester
St. Marys
Scranton
Sewickley
Sharon
Shippensburg
State College
Swissvale
Tarentum
Titusville
Turtle Creek
Uniontown
Vandergrift
Verona
Warren
Washington
Waynesburg
West Newton
Wilkinsburg
Wilmerding
York

WEST VIRGINIA—28 stores

Beckley
Buckhannon
Clarksburg
Elkins
Fairmont
Hinton
Hollidays Cove
Keyser
Logan—2 stores
Montgomery
Morgantown
Moundsville

Northfork, West Virginia; Piqua, and Salem, Ohio; Stamford, Connecticut; Indianapolis, Indiana; Streator, Illinois; and Lancaster, New York.

Our present plans for the year 1941 are to open new stores at Wheeling, West Virginia; and Butler, Pennsylvania; and to replace our two present warehouses with a new one story brick and steel building to be erected in Versailles Township, near McKeesport. Work on this project will start in the early spring.

We shall also continue our practice of remodeling present stores for better and more efficient operations.

Employee Relations

On May 15, 1940 we held our First Annual Meeting of the G. C. Murphy Company Veterans' Club, and laid plans for the new organization. Employees with service of fifteen years or more are eligible and are entitled to extra vacation privileges. Employees with fifteen years of service are entitled to a yearly vacation of three weeks; those with twenty years of service are entitled to four weeks; and those with twenty-five years of service, five weeks. Membership certificates and jeweled service pins are awarded to eligible employees.

On June 3, 1940 we inaugurated a medical clinic service. General physical examinations, as well as dental hygiene service, and eye, ear, nose, and throat examinations are available for all employees.

The Company will continue its policy to provide a measure of security for its employees through group life insurance and sickness and accident insurance.

Group Hospitalization Insurance, for all employees who desire to avail themselves of the coverage, became effective July 29, 1940.

Christmas bonuses amounting to \$82,500 were paid on December 18, 1940 to saleswomen and certain other employees. A total of \$78,251 was paid in 1939.

Wages and compensation for the year 1940 amounted to \$8,210,000 as compared with \$7,680,000 paid in 1939.

IN MEMORIAM

It is with deep and sincere sorrow that we record the death of our beloved Chairman of the Board of Directors, and President, Mr. John S. Mack, who passed away on September 27, 1940, after a prolonged illness.

His fine sense of fairness in all his dealings, together with a kindness, thoughtfulness, and respect for the rights of others endeared him to all with whom he came in contact.

His high aspirations for the future of our business and optimistic point of view played an important part in its growth.

We pay tribute to his memory.

Your Management looks forward to the year 1941 with confidence in the future of our country and our business, and we shall make every effort to serve our customers to their utmost advantage.

In conclusion we wish to thank our customers, shareholders, and employees, for their fine spirit of loyalty, cooperation, and service.

Sincerely yours,

John S. Mack
Chairman of the Board

W.B. Shaw
President

RECORD OF SALES, EARNINGS, AND DIVIDENDS For Past Ten Years

	Sales	Net Earnings	Earnings Per Share Common Stock	Shares Outstanding Common	Preferred*	Common	Dividends Preferred*	Number of Stores
1931	\$19,238,362	\$ 865,327	\$ 4.17	149,938	30,000	\$ 239,901	\$240,000	172
1932	18,532,012	646,888	2.71	149,938	30,000	239,901	240,000	176
1933	21,884,789	1,335,294	7.30	149,938	30,000	239,901	240,000	180
1934	28,001,013	1,947,342	11.38	149,938	30,000	239,901	240,000	186
1935	31,597,890	2,247,860	13.39	149,938	30,000	239,901	240,000	189
1936	37,995,419	2,945,278	5.90	465,000	40,000	1,622,397	200,000	195
1937	42,522,253	3,007,383	5.84	480,500	40,000	1,719,464	200,000	200
1938	42,190,212	2,489,867	4.77	480,500	40,000	1,561,625	200,000	201
1939	47,284,970	3,307,822	6.47	480,500	40,000	1,561,625	200,000	202
1940	53,365,581	3,363,535	6.58	480,500	40,000	1,922,000	200,000	204

*8% Cumulative Preferred Stock outstanding years 1931 to 1935 inclusive. 5% Cumulative Preferred Stock outstanding since 1936.

G. C. MURPHY COMPANY
AND ITS WHOLLY-OWNED SUBSIDIARY
MACK REALTY COMPANY

STATEMENT of CONSOLIDATED INCOME and EARNED SURPLUS
For the year ended December 31, 1940.

Sales.....		\$53,365,580.97
Deduct:		
Cost of goods sold and operating expenses, including general and administrative expenses.....	\$47,619,573.40	
Provision for depreciation of buildings, building improvements, and fixtures, and amortization of improvements to leased properties.....	792,972.41	
Provision for taxes based on income:		
Federal income tax....	\$1,157,000.00	
Federal excess profits tax.....	313,800.00	
State income taxes....	160,300.00	
	<u>1,631,100.00</u>	
Interest paid or accrued.....	68,411.92	
		<u>50,112,057.73</u>
		3,253,523.24
Rentals and miscellaneous income, net.....	110,011.97	
Net income for the year 1940.....	3,363,535.21	
Earned surplus, December 31, 1939, unappropriated.....	9,522,104.58	
		<u>12,885,639.79</u>
Add, balances of reserves at December 31, 1939, restored to unappropriated surplus:		
Reserve for contingencies.....	800,000.00	
Reserve for employees' relief.....	122,937.88	
	<u>922,937.88</u>	
		<u>13,808,577.67</u>
Deduct, dividends paid or declared:		
Preferred stock, 5 per cent.....	200,000.00	
Common stock, \$4 per share.....	1,922,000.00	
	<u>2,122,000.00</u>	
Earned surplus, December 31, 1940.....	\$11,686,577.67	

Board of Directors,

G. C. MURPHY COMPANY:

We have examined the consolidated balance sheet of G. C. MURPHY COMPANY and its wholly-owned subsidiary, MACK REALTY COMPANY, as at December 31, 1940, and the consolidated statement of income and surplus for the year then ended, have reviewed the system of internal control and the accounting procedures of the companies and, without making a detailed audit of the transactions, have examined or tested accounting records of the companies and other supporting evidence, by methods and to the extent we deemed appropriate.

In our opinion, the accompanying consolidated balance sheet and related statement of income and surplus present fairly the consolidated position of the companies as at December 31, 1940, and the consolidated results of their operations for the year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

LYBRAND, ROSS BROS. & MONTGOMERY.

Pittsburgh, Penna.,
February 3, 1941.

G. C. MURPHY COMPANY

AND ITS WHOLLY-OWNED SUBSIDIARY

MACK REALTY COMPANY

CONSOLIDATED BALANCE SHEET, DECEMBER 31, 1940

ASSETS:

Cash on hand and demand deposits.....	\$ 2,906,424.25	
Merchandise inventories, at the lower of cost or market:		
At stores and warehouses.....	\$6,135,502.08	
In transit.....	1,384,581.95	
		7,520,084.03
Total current assets.....		10,426,508.28
Property and equipment, at depreciated book amounts for properties acquired from predecessor corporation in 1919, plus subsequent additions at cost:		
Land.....	1,599,507.01	
Buildings and building improvements.....	\$2,978,809.13	
Less, allowance for depreciation.....	1,080,789.76	1,898,019.37
Improvements to leased properties.....	7,833,785.28	
Less, allowance for amortization.....	2,397,959.21	5,435,826.07
Fixtures and equipment.....	7,090,456.91	
Less, allowance for depreciation.....	2,832,283.75	4,258,173.16
Construction in progress.....	41,152.05	
		13,232,677.66
Real estate purchased under agreement consummated subsequent to December 31, 1940.....		45,315.62
Prepaid expenses:		
Prepaid expenses, including insurance, taxes, rentals, supplies and other expenses.....		245,838.60
Other assets:		
Due from closed banks (Less allowance of \$32,850.00).....	3,979.29	
Miscellaneous receivables (Less allowance of \$5,950.00).....	72,100.20	
Sundry investments (Less allowance of \$11,200.00).....	17,162.97	93,242.46
		<u>\$24,043,582.62</u>

LIABILITIES:

Accounts payable, including liability for merchandise in transit..	\$ 1,487,282.77	
Dividends on preferred stock payable January 2, 1941.....		50,000.00
Accrued liabilities:		
Salaries, bonuses and other expenses.....	\$1,036,833.35	
Taxes, other than federal income and excess-profits.....	598,994.65	
Federal income and excess-profits taxes.....	1,473,387.05	3,109,215.05
Liability under real estate purchase agreement.....		45,000.00
Term indebtedness due within one year.....		66,393.33
Total current liabilities.....		4,757,891.15
Term indebtedness:		
Purchase money mortgages and installment loans.....	635,316.22	
Less, amount included with current liabilities.....	66,393.33	568,922.89
Contingent liability (Note A).		

CAPITAL:

Capital stock:		
5 per cent cumulative preferred stock, par value \$100 per share (Note B):		
Authorized 50,000 shares		
Outstanding 40,000 shares.....	4,000,000.00	
Common stock, no par value:		
Authorized 500,000 shares		
Outstanding 480,500 shares, stated value..	1,729,800.00	
		5,729,800.00
Paid-in surplus (No change during 1940).....	1,300,390.91	
Earned surplus.....	11,686,577.67	
		18,716,768.58
		<u>\$24,043,582.62</u>

NOTES: (A) Mack Realty Company is contingently liable on mortgages of \$27,600.00 assumed by purchasers of certain properties sold during 1940.
 (B) The preferred stock is redeemable at \$105.00 per share on or before January 2, 1949 and at \$103.00 per share thereafter.